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Belal, A., Ali, M., & Mazumder, M. M. M. (2019). Intellectual Capital Reporting Practices in Islamic Bank: A Case Study Business Ethics: A European Review, 28.

Intellectual Capital Reporting Practices in an Islamic Bank: A Case Study

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Acknowledgement

Earlier versions of this paper have been presented at the 5th Asian Business Research Conference, Dhaka, Bangladesh 23 – 24 December, 2011, British Accounting and Finance Association Conference, 9-11 April, 2013 Newcastle, UK, European Accounting Association Conference 6-8 May, 2013, Paris, APIRA Conference 26-28 July, 2013, Kobe, Japan, Staff Seminar, Victoria University of Wellington, 13th June, 2014 and the 18th International Symposium on Ethics, Business and Society at IESE Business School, Barcelona, Spain, 30 June- 1 July, 2014. Thanks to the participants and reviewers for their comments and observations. The authors would like to acknowledge the research assistance provided by Sardar Sadek Nizami and Teng Li. Usual disclaimer applies.

Intellectual Capital Reporting Practices in an Islamic Bank: A Case Study

Abstract

Given the nature and importance of Islamic banks in recent times we can expect them to have significant intellectual capital anchored in their Sharia based knowledge and expertise. However, we know very little or nothing about how and why intellectual capital related information is provided in their corporate reports. We fill this gap in our existing knowledge of the field with a view to enhance relevant literature. As far as we know this article is one of the earliest exploratory attempts to examine intellectual capital reporting practices of an Islamic bank. We have undertaken a longitudinal (2001-2015) case study related to the intellectual capital reporting practices of an Islamic bank. Key results include significant rise of intellectual capital reporting over time, dominance of internal capital related items in intellectual capital reporting profile and the dynamics of changes in intellectual capital reporting practices over time. Through an institutional theory lens we explain that this is due to the changes in the external institutional environment and various intra-organisational factors such as strong ethical culture, unique knowledge base (Sharia) and corporate governance regime.

Keywords

Islamic banking, Intellectual capital reporting, Internal capital, External capital, Human capital, Case study, Bangladesh

1. Introduction

In the context of significant erosion of trust in the interest based conventional banking system Islamic banking has emerged as an alternative form of interest free banking system with strong growth potential. Islamic banking is considered to be an ethical banking system as it strives to conduct its operations in an ethical manner with an ethical identity (Belal, Abdelsalam, & Nizamee, 2015; Haniffa & Hudaib, 2007; Ullah, Jamali, & Harwood, 2014). It does not allow interest based products and promotes the concept of risk sharing rather than risk shifting. It considers interest based system as exploitative which goes against the spirit of Sharia. Islamic integrity and morality heavily influence the operations of these banks. They are not allowed to invest in controversial sectors such as gambling, pornography and tobacco. Islamic banking industry has seen significant growth in recent times (E&Y, 2012). Muslim majority countries played a dominant role to develop such a banking system. Bangladesh is one such country where our case bank (SB hereafter, pseudonym of the case organisation) was established. It can be argued that unique knowledge base in an ethical alternative banking, which is drawn from the principles of Islamic laws (Sharia), and the organisation's ability to utilise its intellectual capital related potential is one of the main sources of competitive advantages for this type of organisation (Keenan & Aggestam, 2001; Nahapiet & Ghoshal, 1998). Therefore, these banks are expected to have significant intellectual capital. But we know very little or nothing about how and why such information is reported in the corporate reports of these banks. This paper attempts to address this gap in the literature.

Our paper is significant for two reasons. First, given the emergence and sheer size of the Islamic banking and finance industry it is important to know the sources of its organisational advantages. It can be argued that the competitive advantage of Islamic banks is not based on its physical capital rather its strength lies in its distinct knowledge base which can be purposefully mobilised to serve the needs of its customer base in Muslim majority countries around the world. Second, examination of intellectual capital reporting and its profile in Islamic banks might help to understand the various components of intellectual capital reporting. Development of such understanding has the potential to shed light on how and why Islamic banks fared well in the recent financial crisis while the conventional banks appear to have been damaged badly. We argue that examination of intellectual capital reporting in Islamic banks might be important for public understanding (Su, 2014) and policy development in this area.

The main purpose of this article is to undertake a longitudinal case study of intellectual capital reporting practices in an Islamic Bank (SB). We examine the changes in the development of intellectual capital reporting and explain the main drivers for such changes in SB. Most of the previous intellectual capital reporting literature has focused on cross sectional or industry level data (Guthrie, Ricceri, & Dumay, 2012). There is no longitudinal study which considers the development of intellectual capital reporting in a single organisation over an extended period of time with the exception of Campbell and Abdul Rahman (2010) and Slack and Munz (2016). There is a call by Campbell and Abdul Rahman (2010) and Slack and Munz (2016) for longitudinal studies as such studies help to understand the patterns and trends of intellectual capital reporting over time. Focus on a single case helps to scrutinise the practice of intellectual capital reporting, how it works within an organisation (Guthrie et al., 2012) and how it 'is involved in organisational and social transformation' (Mouritsen, 2006,p.820).

Our article contributes to the intellectual capital reporting literature by adopting a longitudinal single case study design. We examine the development of intellectual capital reporting in an Islamic bank. As far as we know this is one of the first studies to do so. Following Su (2014) we explore how Islamic culture fosters an organisational environment leading to interesting dynamics of different components of intellectual capital. While Su was unable to do this due to the cross sectional nature of her work, our longitudinal case study design enables us to do so. In this way we extend Su's (2014) work by providing the called for longitudinal case study based evidence. We also contribute by building an institutional theory explanation of the circumstances and context under which one particular category of intellectual capital disclosures (internal capital) dominates over the other.

We proceed with a review of prior research in the next section. Following on the literature review a third section presents the theoretical framework adopted in this study. The fourth section examines the socio-political and regulatory context of Islamic banking and intellectual capital in Bangladesh within which SB operates. The fifth section introduces the case context. The sixth section explains the research method adopted in this paper. The seventh section presents the main results and analysis in details. The penultimate section discusses the findings of the study before providing some concluding remarks in the final section nine.

2. Prior Research

Intellectual capital refers to the 'knowledge and knowing capability' (Nahapiet & Ghoshal, 1998, p. 245) of organisations. Organisational reporting on such capital is becoming a significant trend. According to Guthrie et al. (2012, p. 68) Intellectual capital accounting and reporting refers to:

> …an accounting, reporting and management technology of relevance to organisations to understand and manage knowledge resources. It can account and report on the size and development of knowledge resources such as employee competencies, customer relations, financial relationships and communication and information technologies.

A number of previous Intellectual capital reporting studies (Abeysekera & Guthrie, 2005; Bellora & Guenther, 2013; Bozzolan, O'Regan, & Ricceri, 2006; Campbell & Abdul Rahman, 2010; De Silva, Stratford, & Clark, 2014; Guthrie & Petty, 2000; Guthrie, Petty, & Ricceri, 2007; Rodrigues, Tejedo-Romero, & Craig, 2017; Slack & Munz, 2016; Striukova, Unerman, & Guthrie, 2008) have examined the corporate reporting of intellectual capital in various types of organisations and in different contexts. These studies classified intellectual capital disclosures into three broad categories – external capital, internal capital and human capital. Similar categorisations of intellectual capital are also adopted in the business ethics literature (see for example, Hidalgo, García-Meca, & Martínez, 2011; Martín-de-Castro, Delgado-Verde, López-Sáez, & Navas-López, 2011; Su, 2014). An overwhelming majority of these studies noted that organisations mainly reported in the external capital category which captures the relational aspects of intellectual capital such as brands, customer relationships and business collaborations. A summary of the findings of some of the previous studies are shown in Table 1:

Table 1 here

As Table 1 shows, Campbell and Abdul Rahman (2010) found that the overall proportion of external capital disclosures was 61% in their case study of UK retailer - M & S. Similarly, Slack and Munz (2016) studied the intellectual capital reporting profile of Daimler AG and noted the dominance of external capital at 43% in the overall intellectual capital reporting profile of the case organisation. The popularity of disclosures related to external capital in the previous studies could be related to the nature of the samples examined in these studies. In addition, they argued that it could be due to the focus of these high profile organisations on brand and reputations.

Internal capital refers to those collective organisational/structural knowledge, skills and resources which employees cannot carry with them when they leave organisations. As opposed to internal capital human capital consists of individual skills and expertise belonging to the individual employees. Prior research consistently reported internal capital as the least reported category. Again this can be related to the nature of the sample examined in the previous studies which mainly focused on non-financial companies. However, in a study of the knowledge intensive sectors, including banks, Li, Pike & Haniffa (2008) found internal capital as the most popular category of disclosures in terms of disclosure scores. Another article (Cerbioni & Parbonetti, 2007) of European biotech companies (knowledge intensive sector) reports that 49.6%, 31.8% and 18.6% of disclosure contents were related to internal, external and human capital categories respectively. In their exploration of determinants for intellectual capital reporting both of these latter two studies found strong positive relationship between intellectual capital reporting and various corporate governance factors including the existence of audit committees (Li, Mangena, & Pike, 2012). Based on the findings of these two studies it can be argued that the incidence of internal capital and its disclosures will be higher in knowledge intensive companies, such as banks, with effective corporate governance structures (e.g. existence of audit committees) in place. From the Mexican context Hidalgo et al. (2011) provide empirical evidence that corporate governance factors influence the disclosures of intellectual capital.

The banking sector can be considered as one of the most knowledge intensive sectors (Windrum & Tomlinson, 1999). Given the knowledge intensity of this sector we argue that banks would have less physical capital and more intellectual capital which can be made visible through disclosures aimed at various stakeholders necessary for the continued success of the organisation (Beattie & Thomson, 2007). Organisations may also undertake intellectual capital reporting practices to be in line with the social norms and expectations and thereby gain and maintain legitimacy with the relevant stakeholders (Khan & Ali, 2010; Wagiciengo & Belal, 2012). This helps organisations to 'avoid imposition of costs arising from non-legitimacy' (Beattie & Smith, 2012, p.130). In a recent article on UK finance directors' views of intellectual capital reporting practices Beattie and Smith (2012) found support for legitimacy and stakeholder theories as potential explanations for intellectual capital reporting.

In recent times a growing number of studies (Goh, 2005; Haji & Mubaraq, 2012; Kamath, 2007; Khan & Ali, 2010; Mondal & Ghosh, 2012; Murthy & Mouritsen, 2011; Shih, Chang, & Lin, 2010; Yalama & Coskun, 2007) have examined intellectual capital reporting in banks. This is perhaps not surprising given the attention drawn to this sector due to the recent financial crisis. In another article Haji and Mubaraq (2012) examines the intellectual capital reporting practices in the Nigerian banks. They found that while human and internal capital disclosures were dominant, internal capital disclosures revealed a significant upward trend over the study period of 2006-2009. The authors note that their study period was preceded by a reform initiative in the Nigerian banking sector which included introduction of a mandatory corporate governance code. In the line with the previous studies (Cerbioni & Parbonetti, 2007; Li et al., 2008) they argued that corporate governance factors had a positive influence on intellectual capital reporting practices in general and the rise of internal capital disclosures in particular.

In the context of Bangladesh Khan and Ali (2010) undertook a content analysis of intellectual capital reporting practices in the annual reports of 20 banks related to the year 2007-2008 and a questionnaire survey of users' perceptions of current intellectual capital reporting practices. They revealed that in terms of word count 65.0% of intellectual capital reporting were related to human capital, with 20.8% and 14.2% related to external and internal capital respectively. The frequency count showed a similar pattern of 58.8%, 24.3% and 16.9% for human, external and internal capital respectively. The dominance of human capital related disclosures was attributed to the management intention to provide additional information aimed at the stakeholders and to exhibit management priorities on human resources over their competitors. We note that the data year for Khan and Ali (2010) was related to 2007-2008 which is nearly half a decade old. Since 2007-2008 the banking and other corporate sectors in Bangladesh have gone through various reforms including corporate governance (see section 4). These reforms have implications for the subsequent development of intellectual capital reporting practices which have not been reflected in their article. It can also be noted that nearly all of their samples are mainstream conventional commercial banks. Islamic banks possess many special features including interest free banking and ethical motives (including social welfare) which are based on Islamic ideology and culture. These features have implications for the development of intellectual capital in general and internal capital in particular.

The latest empirical work by Su (2014) have found that ethical value based organisations are likely to have more intellectual capital (including internal capital). Su (2014) has argued a positive relationship between business ethics and intellectual capital as business ethics positively impacts upon the development of intangible knowledge resources. Businesses with ethical values at the core reinforce ethical conducts and successfully build trust with their various stakeholders including employees, leading to the formation of an ethical and trustworthy corporate culture and a positive corporate environment (Su, 2014). On the basis of a questionnaire survey of some knowledge intensive companies in Taiwan the author argued that ethical culture in the organisation supported the development of significant internal capital base. In the context of Islamic banking and finance it can be argued that the main strength of this kind of specialized banks lies in their ability to tap into the Sharia based expertise on Islamic finance which includes amongst other things interest free banking, risk sharing, prohibition of speculative transactions (e.g. gambling) (Askari, Iqbal, & Mirakhor, 2011). These banks need to develop systems, processes and ethical culture to be in line with the Islamic laws. This unique knowledge base is manifested in the internal capital and its disclosures. It is more likely that Islamic banks would use these disclosures to reinforce and construct their ethical identities (Haniffa & Hudaib, 2007). In the next section we briefly introduce the theoretical framework of this study.

3. Theoretical Framework

Given the institutional context in which SB operates we argue that an institutional lens would help to understand SB's intellectual capital reporting practices. Citing Greenwood and Hinings (1996) Jamali, Lund-Thomsen, and Khara (2017) notes that it 'is one of the most robust sociological perspectives within organizational theory' (p.456). One of the core concerns of institutional theory is to deal with 'how social choices are shaped, mediated and channelled by the institutional environment' (Hoffman, 1999, p. p.351). Organisational practices, including corporate reporting practices, can be affected by the institutional environment within which an organisation operates (Ball & Craig, 2010; Bebbington, Higgins, & Frame, 2009; Contrafatto, 2014; Higgins & Larrinaga, 2014; Jamali, 2010; Nurunnabi, 2015). Institutions can be referred to as various rules, norms, beliefs and ideas which have achieved some degree of social permanency (Zucker, 1987). Religion is considered as a strong institution which can shape individual as well as organisational behaviours (Thornton, Ocasio, & Lounsbury, 2012; Tracey, Phillips, & Lounsbury, 2014). One example of religion influencing organisational behaviour is the development and the rise of Islamic banking in recent times.

We mobilise a multi-level institutional theory framework (Scott, 2002; Scott, 2008) to analyse the results of this study in the context of an Islamic bank. Drawing from Scott (2008) similar multi-level institutional lens has also been used by Jamali and Neville (2011) to examine the development of another organisational practice (CSR) in the Lebanese context. We argue that this kind of multi-level lens helps to illuminate the complexities involved in the analysis.

According to our framework, institutional elements and their carriers can operate at various levels – broader macro level and individual micro organisational level. These various elements or mechanisms of institutionalisation exert pressures on organisations which leads to isomorphic behaviours (DiMaggio & Powell, 1983). These mechanisms include coercive, normative and mimetic isomorphism. Coercive pressures mainly emanate from regulatory forces. For example, listed banks in Bangladesh are required to follow the regulations and guidelines issued by the Central Bank and Securities and Exchange Commission of Bangladesh. Sources of normative pressures include social norms and expectations. In the specific case of this study normative pressures might also be related to the desire by the customer base and the wider Muslim community to be seen as compliant with various Sharia principles. Finally, mimetic sources include organisational desire to mimic or imitate best practices prevalent in the institutional environment for legitimacy or other reasons (Frynas & Yamahaki, 2016). Some of the later writings on institutional theory, however, argue that these isomorphic behaviours of organisations might have been over emphasised as organisations not only conform to institutional pressures but also resist and their strategic responses to those pressures could vary (Scott, 2008). Some of these strategic responses have been discussed in Oliver (1991).

We argue that SB's intellectual capital reporting practices can be influenced by various macro level institutional factors such as social, political, legal and religious elements. Some of these contextual elements are highlighted in the next section and are significant in understanding SB's changing intellectual capital reporting behaviour over time. In addition, there are various micro level intra-organisational factors which, we argue, can affect SB's intellectual capital reporting practices. These factors include organisational culture, philosophies and Sharia principles which are dominant in its organisational practices. We expand on some of these factors later in the paper.

4. The Context of Intellectual Capital and Islamic Banking in Bangladesh

Bangladesh is a Muslim majority (89.1%) country. In 2017 the service sector occupied 56.5% (only 36% in 1970) in the current composition of Gross Domestic Product in Bangladesh (Central Intelligence Agency, 2018). Transformations in the Gross Domestic Product composition over the last four decades shows that Bangladesh is moving towards a more knowledge based service sector economy from a predominant agrarian base. The driving forces for such transformations include a thriving financial sector (which showed resilience during the recent financial crisis), national emphasis on the widespread use of information and communication technology, proliferation of digital media and expanding capital market. In line with the aims of Digital Bangladesh to promote transparency and accountability in organisations Securities and Exchange Commission of Bangladesh issued a Corporate Governance Guideline in 2006 which was subsequently revised in 2012. All listed companies, including banks, are expected to comply with this Guideline.

The concept of intellectual capital and the awareness about this is relatively low in Bangladesh. With a view to increase awareness in this area the Intellectual Property Association of Bangladesh has been established in 2009. The current institutional framework includes Department of Patents, Designs and Trademarks, Ministry of Industries and Copyright Registrar's Office, Ministry of Cultural Affairs. Intellectual property related current legislative framework includes Patents and Design Act, 1911, Trademarks Act, 2009 and the Copyright Act, 2000.

The current corporate reporting laws and stock exchange listing rules do not require intellectual capital disclosures. However, a number of previous studies (Khan & Ali, 2010; Khan & Khan, 2010; Nurunnabi, Hossain, & Hossain, 2011) show that organisations voluntarily report intellectual capital information. The current practice of intellectual capital reporting appears to be at its nascent stage but showing signs of improvement in recent times as the institutional and legislative frameworks are being transformed.

Within the service sector banks and other financial institutions play a significant role in the development of the economy. As compared to only 6 banks in 1971 currently there are 56 banks in Bangladesh, 30 of them are currently listed on the Dhaka Stock Exchange. At present, there are 8 fully-fledged Islamic banks, 9 mainstream banks with 19 Islamic banking branches and 7 other mainstream banks with 25 Islamic banking windows. This sector in Bangladesh has grown at an average rate of 29.3% over the last decade. The rise of Islamic banking is reflective of the demands of the Muslim community for Sharia compliant banking services in Bangladesh. It is observed that because of the strong performance of the Islamic banks in Bangladesh, conventional commercial banks are also providing Islamic banking services by opening separate branches/windows. Moreover, several conventional banks have been converted into Islamic banks. While the mainstream banking sector is tainted by the allegations of corruption, default culture and undue political influence the Islamic banking sector remained unscathed. The rise and continued success of Islamic banks can be attributed to honesty and integrity of the executives, customer loyalty and disciplined management system (Mia, 2012).

Bangladesh Bank is the central bank of the country with regulatory power over the banks. Since 2009 it has introduced a number of initiatives which include, inter alia, regulatory reforms on corporate governance and risk management, digitisation of the banking services, wide connectivity infrastructure, corporate social responsibility and green banking (BangladeshBank, 2012).

5. The Case Context

After examining the wider context of this study in this section we now introduce the specific case context starting with an introduction to the concept of Islamic banking.

5.1 A brief introduction to the concept of Islamic Banking

While detailed discussion on the technical and operational uniqueness of Islamic banking is beyond the scope of this paper in this sub-section we briefly introduce the concept of Islamic banking. As the name suggests these banks are based on Sharia principles anchored in the religion of Islam with a view to promote justice and fairness in society. These principles are derived from two primary sources – Quran [Holy Book of Islam] and Hadith [compilation of Prophet Mohammed's sayings]. Both of these sources explicitly prohibit interest based transactions that we find in conventional banking systems. Interest free banking sets Islamic banks apart from traditional banking. Instead of giving interest to depositors and borrowers from these banks they are provided with risk-based share of profits or losses made from these transactions. Another distinctive feature of Islamic banking is prohibition of gharar (i.e. excessive risk or uncertainty in financial transactions) (Warde, 2013). They are required not to invest in risky or uncertain industries or projects such as gambling (Ullah et al., 2014). According to Islamic banking principles transactions must be associated with real economy and must be backed by real assets.

In addition to the above requirements Islamic banks must comply with many other Sharia principles to meet the expectations of their customers and Muslim Ummah/community in general. Critiques argue that in many cases they fall short of these compliance requirements and there is an expectation gap (Khan, 2010; Minhat & Dzolkarnaini, 2016).[1] To overcome this gap Islamic banks had to introduce Sharia Supervisory Boards (Ullah et al., 2014) whose main responsibility is to ensure compliance with the Sharia principles. Again this is another distinctive feature of Islamic banks and its corporate governance system. We argue that these distinctive features led to the development of a distinctive philosophy, culture and various work processes and systems in Islamic banks. This in turn points to a distinctive knowledge base and accumulation of intellectual capital in these banks.

5.2 The Case

SB was established in 1983. It was the first Islamic bank in the country and also in South East Asia. It is listed on the Dhaka Stock Exchange and is considered as one of the largest listed companies in terms of market capitalization. In 2012 it received awards for best corporate reporting practices in the banking sector. The award scheme was established by the Institute of Chartered Accountants of Bangladesh. In 2015 the SB had 13,622 employees, 304 branches, and a total asset of Taka 859,201 million. Profits before tax (Million Taka) (1 US$=80 Taka app.) increased to 14,348 in 2015. In terms of Return on Equity (ROE) it was ranked 70th in 2015 in the 'Top 1000 World Banks List'. Over the last decade the SB invested heavily in improving its technology infrastructure. Due to its global reputation as a successful Islamic bank it has been asked to offer expertise and help in establishing Islamic banks in other countries.

SB promotes socio-economic upliftment and financial services to the poorer communities particularly in the rural areas of Bangladesh. It promotes interest free banking and avoids all other activities which

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[1] For a full critique of current Islamic banking practices and an introduction to it please refer to Khan (2010) and Minhat and Dzolkarnaini (2016).

are not in compliance with Sharia, for example, speculative activities such as gambling. According to SB, it has a robust Sharia compliance mechanism which is overseen by a 12-member Sharia supervisory committee. The corporate governance structure of SB is characterized by a 13-member board of directors including four independent directors. The current governance structure also includes management committee, executive committee and an audit committee.

Several previous studies argued that intellectual capital reporting might be affected by the economic, social, and political factors of a country where the organisations are operating (Abeysekera, 2008; Haji & Mubaraq, 2012). Since its birth in 1971 Bangladesh went through various political regimes which is mainly characterised by military regimes until 1990 and then the emergence of a so called parliamentary democracy in the post 1990s. The democratic era began with the Bangladesh Nationalist Party in power which traditionally appears to be pro-Islamic. Since 2001 we have seen the regimes of pro-Islamic government- Bangladesh Nationalist Party (2002-2006) and military backed caretaker government (2007-2008) taking hold of power. However, a new government (led by a political party called the Awami League) was sworn in power in 2009 having more secular ideology/philosophy. SB which is allegedly linked with an Islamic political party in opposition might have implicit pressure for more disclosure, transparency and good corporate governance practice. Khan & Bhatti (2008) have hinted on this issue in their article saying that people of Bangladesh hold reservations over the government policies on Islamic banking. It is possible that to operate its banking in an adverse regime, SB might have focused on more intellectual capital generation and disclosure. This argument is consistent with the findings of Haji & Mubarak (2012) that intellectual capital reporting could be influenced by policy changes (e.g. corporate governance).

From the above discussion it appears that SB has some unique features which include operation in a knowledge intensive sector, welfare oriented religious motivation, core expertise in Sharia compliant banking operations, a 12-member Sharia supervisory committee and a comprehensive corporate governance structure characterised by an audit committee and the inclusion of independent director in the board. All these factors indicate that SB is likely to have significant intellectual capital in general and internal capital in particular. It is also likely that SB would want to make this intellectual capital visible via reporting of intellectual capital information in the public domain which would earn them more legitimacy within different stakeholder groups such as employees, customers, shareholders, regulators and the community in general.

6. Research Method

The aim of this study is to explore how and why intellectual capital reporting has developed in an Islamic bank over an extended period of time. For this purpose, we have followed a longitudinal single case study design. The context of the case study organisation is provided in the previous section. We have mobilised content analysis procedures to achieve the aim of this study. To supplement content analysis, we have used some observations from field visits to the head office of the organisation and its various branches. We believe this has helped to give us an understanding of the ethical organisational culture of SB. Such culture fosters an organisational environment leading to an interesting dynamic of the various components of intellectual capital reporting which have been explored in this study.

The justifications for choosing this organisation include a number of factors. First, given the current study’s objective of longitudinal analysis we had access to SB’s annual reports from 2001 to 2015 (latest at the time of research). Second, SB operates in a knowledge intensive Islamic banking sector which is an emerging field of alternative finance and can be considered to possess significant intellectual capital such as technology, systems and processes related to Sharia. As a pioneering Islamic bank in Bangladesh SB has some of the best practices in the area of Islamic finance.

Previous intellectual capital reporting studies (Abeysekera & Guthrie, 2005; Campbell & Abdul Rahman, 2010; Guthrie & Petty, 2000; Striukova et al., 2008; Wagiciengo & Belal, 2012) predominantly used annual reports for the examination of intellectual capital reporting practices in different countries. In terms of disclosure of information, it is generally agreed that published annual reports remain the most important sources of information for many stakeholders. They comprehensively represent the views and concerns of individual firms (Bontis, 2003). Annual reports were collected by the authors by paying several visits to the head office of SB during 2001 to 2015. In addition, during the same period several visits by the authors were also made to different branches of SB to observe and understand the organisational culture of SB. Some of these visits lasted for several hours. During these visits informal interactions were made with top management as well as operational level employees. The main purpose of such interactions was to gain insights to the inner workings of SB such as employees' motivations to work at SB, their views on organisation culture and their relationship with the customers.

The data has been analysed using content analysis procedures. We have analysed the intellectual capital reporting made within the annual reports of SB. SB does not publish any separate social or intellectual capital reports. Use of content analysis procedures is consistent with the objective of this article. The content analysis is an established method in intellectual capital reporting research because it seeks to analyse intellectual capital information systematically and objectively. It is considered as a reliable approach to determine the content of written publications and to make replicable and valid inferences (Guthrie, Petty, Yongvanich, & Ricceri, 2004). Its extensive use in intellectual capital reporting research, as Abeysekera & Guthrie (2005) suggest, demonstrates that it is a very popular and well established research procedure.

Following Bellora & Guenther (2013) we have undertaken a number of steps to improve the validity and reliability of the content analysis adopted in this article. For content analysis we have used a framework which includes 28 items in total divided into three broad categories of internal capital (5 items) and external capital (5 items) and human capital (18 items). A copy of this research instrument (framework) is shown in Appendix A. It has been developed from the previous studies (Abeysekera & Guthrie, 2005; Campbell & Abdul Rahman, 2010; Guthrie & Petty, 2000; Striukova et al., 2008; Wagiciengo & Belal, 2012) and modified appropriately to suit the case context of Islamic banking. These previous studies were mainly influenced by the pioneering work of Guthrie and Petty (2000).

Using the above content analysis framework data were recorded and analysed in a large spread sheet. Coding was mainly carried out by a research assistant under the supervision of the lead author of this paper. The assistant was adequately trained in this regard as part of his Master's degree dissertation project. Initially, a sample of annual reports was coded independently by the research assistant and the lead author. Differences were then reconciled before proceeding with the full blown coding. In addition to this, sufficient breaks were taken at regular intervals to avoid the danger of 'coder fatigue' (Neuendorf, 2002) which might affect high level of attention required in this type of work involving large amount of longitudinal data over 15 years. This process was done to increase the reliability of the content analysis method.

For analytical purposes, we have used two measures: frequency count (number of times a particular item was disclosed) and sentence count (volume of disclosure). The reason for choosing both frequency and volume is the desire to cover both the breadth (occurrence) and depth (abundance) of disclosures (Joseph & Taplin, 2011). Frequency count was carried using a scale of 0 and 1. 0 was recorded for no disclosure and 1 for disclosure of a particular item. As three broad categories do not have same number of items, we have taken proportionate value of the number of times one specific item disclosed and proportionate volume to make rational comparisons. This was done by dividing absolute frequencies and sentences in each category by the maximum number of items in each of the three categories rather than the grand total. In 2005, for an example, frequencies for internal capital, external capital & human capital were 5, 2 & 8 respectively and their maximum numbers of items were 5, 5 & 18. Therefore, the proportionate values of the frequencies become 1.0(5/5), 0.4(2/5) and 0.44(8/18). For measurement of disclosure volumes words, pages and sentences were used as unit of analysis in the previous content analysis studies (Adams & Harte, 1998; Gray, Kouhy, & Lavers, 1995; Hackston & Milne, 1996). Sentence count has been used in the current article for reasons of its widespread use in the previous studies, ease of identification and ability to draw inference (Ingram & Frazier, 1980). Use of sentence also overcomes the difficulty of determining proportions of pages and standardisation of number of words (Hackston & Milne, 1996).

7. Results and analysis

7.1 Overall patterns and trends of intellectual capital reporting

Figure 1 here

Figure 1 depicts overall and year-wise longitudinal patterns of intellectual capital reporting based on proportionate sentences. It shows intellectual capital reporting volumes measured by proportionate sentences in total and by three broad categories (internal, external and human capitals). It is evident from the figure that total intellectual capital reporting had been increasing over the study period. It is also noteworthy that overall disclosure of intellectual capital information in SB and internal capital related disclosures had seen significant rise since 2009. We explain the reasons for such rapid increase in our discussion of findings in section eight.

We also note that human capital related disclosures have seen significant increase in 2010. This is due to SB focusing on building and retaining its manpower by adopting proactive strategies of employee narratives and indicating ‘substantial investment in training and development activities’ (Jawahar & McLaughlin, 2001, p. 408).

7.2 Broad category wise comparison

Table 2 displays category-wise intellectual capital reporting in SB’s annual reports from 2001 to 2015. Both proportionate frequency and proportionate number of sentences for each of the three broad categories are shown in the table. In terms of number of times a particular category was disclosed, the proportionate frequency is 1.00 for internal capital over the 15-year period while this number is 0.63 and 0.61 for external and human capital categories respectively. Throughout the study period internal capital has been consistently scoring 1 (maximum possible score) which means all items of internal capital category are disclosed but items under external and human capital are not always reported as much as internal capital. On the basis of proportionate volume (sentences) internal capital items are disclosed with an average of 33.00 sentences over the research period while other two categories disclosing 9.96 and 6.06 sentences respectively.

Table 2 here

Table 2 also reveals the composition of total intellectual capital reporting over the study period in percentage terms based on proportionate frequency and proportionate volume. On both counts it clearly demonstrates that internal capital is the most dominating intellectual capital reporting category having 45% of total intellectual capital reporting on the basis of proportionate frequency and 67.4% of total intellectual capital reporting on the basis of proportionate volume. The least popular category is human capital both in terms of frequency (27%) and sentences (12.4%). If we look at year-wise proportionate frequency, internal capital scores 1 consistently throughout the study period which means all five items are disclosed every year under this category. Whereas, in the other two categories (external and human capitals), proportionate frequencies are always less than 1 except for external capital in 2010 which means that all items are not disclosed every year under both external capital and human capital categories. The above results capture the significant development of intellectual capital reporting in SB over the study period.

As we have shown earlier in the context sections four and five SB is a pioneering Islamic bank in Bangladesh. It is considered as a leader in the field of Islamic banking. Moreover, the attempt to draw on its expertise in the development of Islamic banking elsewhere also bears testimony to the fact that it possesses significant expertise in this area. This expertise is related to the practice of Sharia law in their business activities. Rice (1999) notes that a deeper appreciation of Islam can be advantageous to executives conducting business with any Muslims around the globe as they derive their ethical system from the teachings of the Qur'an and Hadith. The knowledge base our case bank holds, enshrined in the principles of Sharia (e.g. interest free banking), differentiates itself from other conventional interest based banks. There are fundamental differences in the way these two types of banks operate as highlighted in sub-section 5.1.

Our finding is broadly in line with the argument we have articulated earlier that Islamic organisations like SB are expected to have significant intellectual capital in general and internal capital in particular. In our case bank, which fosters a religious and welfare-oriented organisational culture, we argue that significant incidence of internal capital related disclosures is indicative of the religious cultures nurtured by SB. Later in the next sub-section 7.3 we have provided examples of disclosures which talks about the features of religious culture in SB. We have observed a deep religious culture in SB during our visits to its head office and various branches. This is evidenced by various rituals performed in the bank which appear to be aimed at fostering religiosity and morality at work. For example, we have seen that congregational daily prayers are offered followed by talks offering moral lessons around the topic of interest free banking, prohibition of corruption, bribery etc. During the prayer intervals all banking activities and routine operations are stopped to facilitate prayers by the employees. Moreover, relevant Qur'anic verses and quotations from prophetic sayings on the Islamic prohibitions on interest are displayed on wall posters, desk top diaries and annual official calendars. Clearly, these are attempts to promote an Islamic culture. It is an attempt to create trust amongst the customers by reassuring them the commitment of SB towards Sharia compliance which is very fundamental to its existence.

7.3 Item-wise comparison

Figure 2 represents the proportionate frequency of intellectual capital reporting by items over the study period from 2001 to 2015. It shows that all items under internal capital category have been consistently scoring 1 over the study period. Among external capital items, brands and business collaboration have been consistently scoring 1. Four items consisting of career development, training programmes, employees thanked and employee numbers have been consistently scoring 1 under the category of human capital.

Figure 2 here

On the other hand, Figure 3 exhibits the proportionate disclosure volume in sentences. It reveals that most internal capital items are fairly and uniformly disclosed over the research period particularly intellectual property, philosophy & culture, management processes and systems information are four predominant items (in terms of number of sentences) followed by one external capital item 'business collaboration' and one human capital item 'board expertise'. Considering both item wise proportionate frequency and volume of the intellectual capital reporting, disclosure of internal capital items appears to be fairly consistent and substantial.

Figure 3 here

Within the internal capital items one of the highest volume of disclosures (see Figure 3) were employed to the talk about the philosophy and the culture of SB. SB's attempt to draw attention to its unique knowledge base, Sharia expertise and Islamic culture are shown below by way of some illustrative disclosures:

> "Our investment is based on Islamic values as defined by the principles of Shariah (Islamic law). The Islamic Shariah attempts to maximize social welfare. Consequently, Islamic investment involves the screening out those companies whose primary business does not conform with the Shari'as principles." (AR 2010, p.90).

> [SB] gives due importance to the moral concerns in order to make the right ethical decisions in every aspect of operations……….Enforcement of corporate code of ethics requires clear understanding of the same and active participation by everyone in the bank since the code spells out the expected standards of behaviour and sets the ideal operating principles to be followed. Every official is encouraged at all times to maintain high ethical standards and adequate internal control measures to guard against the occurrence of any unethical practices and irregularities. (AR 2015, p.39)

One of the distinguishing features of its governance structure is the establishment of Sharia supervisory committee:

> "The Shari'ah Supervisory Committee of the Bank gives opinions and guidelines to implement and comply with the Shari'ah principles in all activities of the bank… evaluates performance of the officials in terms of their Shari'ah compliance." (AR 2013, p.73).

> Strict adherence to Shari'ah principles is the core of all our Banking operations. We have been trying to bring doubtful income at zero level. Shari'ah Secretariat has been strengthened with capable manpower. ….. Awareness for total Shari'ah compliance among the entire workforce and clients had been emphasized throughout the year. (AR 2014, p.18)

The above disclosures are indicative of SB's Islamic ethos. Following Su (2014) we argue that such ethos and cultures will create an organisational environment characterised by a sense of belonging to the organisation, transparency, trustworthiness, innovativeness, knowledge sharing and creativity leading to a build-up of significant internal capital.

8. Discussion of results

Our key findings indicate that there is an overall increase in intellectual capital disclosures over the study period with more significant increase since 2009 (see Figure 1). Another notable finding is the dominance of internal capital related disclosures amongst three broad categories of intellectual capital disclosures that have been discussed in section two of this paper (see Figure 1 and also Table 2). We now make an attempt to make sense of these key results with reference to our theoretical arguments, prior research and the context of this study.

The overall increase in intellectual capital disclosures over the study period could be interpreted as a response by SB to the increasing demand for intellectual capital information from the stakeholders with a view to minimize the information asymmetry (Holland & Johanson, 2003; Petty, Ricceri, & Guthrie, 2008). It can be expected from a listed company like SB with significant shareholder base. It also shows that from the beginning of the study period up to the year 2008, the trend was increasing but at a slower rate while from 2009, the rate of growth both in total and internal capital disclosure were at a faster rate. This can be attributed to the changing political regimes as highlighted in sub-section 5.2 of this paper. SB has increased its intellectual capital disclosures to legitimise its continuing activities under a secular government. It is said to be linked to an Islamic political party in opposition. This link and its Islamic ideologies might have placed SB in a position of adversaries with the secular ruling power. The rapid increase in intellectual capital disclosures since 2009 can also be linked to the wider changes at the macro level instituional environment related to intellectual capital in Bangladesh. For example, Intellectual Property Association of Bangladesh, established in 2009, played a pioneering role in increasing relevant awareness. Furthermore, Trademark Act, 2009 was promulgated. Steps were taken to reform and further strengthen the Department of Patents, Designs and Trademarks. This can be taken as the sources of isomorphic regulatory pressures (DiMaggio & Powell, 1983).

In section of 7.2 of this paper we have reported the observance of Islamic rituals in the bank. We argue that this kind of rituals collectively practiced in an Islamically oriented organisational culture, ultimately contributed to the significant development of internal capital in SB. Furthermore, such an organisational environment fosters trust and builds strong customer relationships leading to the development of external capital (Su, 2014). This is particularly important for SB as its customers need to put their trust in SB that their money is dealt with in a Sharia compliant way. Thus we explain how an Islamic culture fostered in a trustworthy organisational environment reveals an interesting dynamic between different categories of intellectual capital paving the way for significant development of intellectual capital reporting over the study period. This is reflective of normative isomorphic pressure (DiMaggio & Powell, 1983) requiring SB to respond to the expectations of its core customer base consisting predominantly of practicing Muslims in particular and wider Bangladeshi Muslim community in general.

In order to further explain the development of intellectual capital reporting in SB we then attempt to relate these results to a constellation of various intra-organisational factors within SB and also various other external institutional factors at the macro level. Internal capital has been the predominant category over the study period as the bank has experienced competitive and complex business and political environment. Considering the possible adversity and complexities, during this period SB has intensified its efforts to develop its own capabilities focusing on Islamic philosophy & culture, efficient internal process and systems. As noted earlier in the paper other than the political adversity, SB experienced some changes in the macro institutional environment like issuance of corporate governance guidelines, central bank Islamic banking guidelines, promulgation and updating of intellectual capital related laws, which had an effect on its intellectual capital reporting.

Previous studies (Cerbioni & Parbonetti, 2007; Haji & Mubaraq, 2012; Hidalgo et al., 2011; Li et al., 2008) suggest that organisations operating in the knowledge intensive sectors and having effective corporate governance structure are likely to make more intellectual capital disclosures in general and higher disclosures related to internal capital in particular. SB operates in the banking industry which is considered as one of the most knowledge intensive sectors (Windrum & Tomlinson, 1999). In addition, it is noteworthy that SB operates in the niche sector of Islamic banking industry which we have argued above as having unique expertise and knowledge base. As noted earlier, it has a comprehensive corporate governance structure evidenced by the presence of an audit committee, Sharia supervisory committee, inclusion of independent director on the board and separation of the responsibilities of the Chairman and Managing Director/Chief Executive Officer. We argue that an organisation having these features is likely to have significant intellectual capital reporting in general and higher internal capital in particular. SB has these features and it is no surprise that it would want to make appropriate disclosures in this regard to make these capitals visible in the public domain which in turn would help it to earn more legitimacy from the relevant stakeholders like customers, regulators and the community in general. This is in line with the institutional theory explanation that these micro intra-organisational institutional dynamics would influence organisational behaviour and practices like intellectual capital reporting.

We are not first to find higher incidence of internal capital in banks. In a recent article of Nigerian banks Haji and Mubaraq (2012) reported higher incidence of internal capital disclosures which were attributed to the imposition of corporate governance code in the pre study period. In line with these previous studies we argue that faster rate of increase in internal capital disclosures during the study period is influenced by the corporate governance guidelines issued by the Securities and Exchange Commission of Bangladesh and recent reform initiatives introduced by the Central Bank of Bangladesh. This provides further evidence of macro institutional factors influencing organisational behaviour and practices like intellectual capital reporting.

The results of this article have a number of wider implications for policy and practice. Firstly, in line with the previous research we have argued that dominance of internal capital disclosures could be, in addition to other intra-organisational factors, indicative of strong Islamic cultures and corporate governance regimes (including Sharia supervisory committee) in Islamic banks which might have helped them to survive through the difficulties of financial crisis. Policy makers might frame tools of effective corporate governance which would help to prevent future bank failures. Effective Islamic cultures might assist in strengthening the internal capital structures in these organisations. Secondly, while previous research on intellectual capital reporting consistently reported the dominance of external capital our research shows the implications of different findings in different context (in this case Islamic finance – a significant industry of comparatively recent origin).

9. Summary and concluding remarks

In this paper we have undertaken a longitudinal examination of the intellectual capital reporting practices in an Islamic bank. Key results include significant rise of intellectual capital reporting over the study period and dominance of internal capital related disclosures in the overall intellectual capital reporting profile. We argue that this is due to the changes in the external institutional environment (particularly political and regulatory factors) and various intra-organisational factors such as strong Islamic organisational culture, unique knowledge base (Sharia) and unique corporate governance regime in the case bank. These explanations are consistent with the multi-level institutional theory (Scott, 2002) we introduced in section three. Following Su (2014) we argue that this is due to the development and maintenance of an Islamic organisational culture, where employees can be innovative and creative. Changes in the external factors (changing political regimes, competition, central bank's policy development etc.) led to the rising development of intellectual capital reporting in SB and its changing profile. We have provided evidence of isomorphic regulatory and normative pressures influencing SB's intellectual capital reporting practice.

We have contributed to the intellectual capital reporting literature by undertaking a longitudinal single case study of an Islamic bank – a sector which has not been explored adequately within the intellectual capital reporting literature but is expected to have strong intellectual capital base. As far as we know it is one of the earliest exploratory attempts. Being one of the few longitudinal case studies it stands in contrast with previous cross sectional studies in intellectual capital reporting field. We thus have extended previous cross sectional work done in this field by Su (2014). We challenge the findings of previous research summarised in Table 1 (Abeysekera & Guthrie, 2005; Bozzolan et al., 2006; Campbell & Abdul Rahman, 2010; Guthrie et al., 2007; Slack & Munz, 2016; Striukova et al., 2008) which found dominance of external capital related disclosures in the overall intellectual capital reporting profile. Our results related to the dominance of internal capital related disclosures in SB stand in sharp contrast to the findings of previous studies. Drawing on institutional theory we contribute by building an explanation of why this is the case. We have explained earlier that this is due to the changes in the external institutional environment and various intra-organisational factors such as strong ethical culture, unique knowledge base (Sharia) and corporate governance regime.

As this is one of the earliest articles on intellectual capital reporting practices in Islamic banking our research is more exploratory in nature. While our research does provide some interesting explanations for the trends and patterns of intellectual capital reporting practices in SB further field work based studies utilising interviews with the managers and stakeholders of SB hold promise for bringing in additional insights. Future researchers are encouraged to move in this research direction for further exploration of intellectual capital reporting in Islamic banking. This type of research appears to be missing from the current intellectual capital reporting literature. In addition, here we have examined the intellectual capital reporting practices of an Islamic bank and adopted a single case study design. In future comparative studies might be undertaken looking at the intellectual capital reporting practices of Islamic banks and non- Islamic banks (interest based mainstream conventional banks) and examine the drivers of similarities and differences between them. This should provide opportunities for cross-sectional organisational learning and research. Finally, we have used a more widely used content analysis framework with some limited modifications to suit our study context. We acknowledge the limitations arising from this approach. However, future research endeavours can be devoted to the development of a more specific research instrument based on Sharia principles.

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Appendix A: Content Analysis Instrument	
Categories	**Decision Rules**
Internal Capital	
1. Systems	Information on systems or networking
2. Processes	Reference to management or technical processes
3. Philosophy & culture	Specific reference to working culture, principles and philosophy of Sharia
4. Intellectual property (IP)	Any mention of IP particulars
5. Financial relationships	Relationships with various fund suppliers including shareholders and depositors
External Capital	
6. Brands	Description of brands owned/bought by the bank
7. Customer satisfaction	Reference to overall satisfaction of customers
8. Quality standards	Includes ISO accreditations, reference to quality initiatives
9. Business collaboration	Reference to collaborations with business partners which did not lead to formal agreement
10. Licensing agreements /favourable contracts	Reference to licensing/franchise agreements and other contracts
Human Capital	
11. Educational/vocational qualifications	Educational/vocational qualifications held by employees & directors
12. Career development	Any management initiatives that encourage career development amongst employees
13. Training programs	Any mention of training programs
14. Race	Any steps mentioned or confirmation of the position on race
15. Gender	Any steps mentioned or confirmation of the position on gender
16. Disability	Any steps mentioned or confirmation of the position on disability
17. Health and safety	Health and safety standards
18. Employee relations	Reference to employee relations with the bank
19. Employees thanked	Thanks given to the employees
20. Employees featured	Any 'named' employees in report, employees that have won awards earned, this excludes directors
21. Employee shares	Details of employee share ownership
22. Compensation (executives and employees)	Reference to remuneration
23. Other employee benefits	Additional non-financial benefits such as health insurance
24. Board expertise	Technical & management skills
25. Employee numbers	Clear detail of total number of employees
26. Professional experience	Number of years worked and previous experience - Particularly for directors
27. Age	Includes directors whose age is identified also look out for average age of employees
28. Value added statements	Clear discussion of employees usually in terms of remuneration (wages & salaries)

	Table 1: Composition of Intellectual Capital Reporting Categories in previous studies					
Intellectual Capital Reporting Categories	Slack and Munz (2016)	Campbell and Abdul Rahman (2010)	Striukova et al. (2008)	Guthrie, Petty, & Ricceri (2007)	Bozzolan et al. (2006)	Abeysekera and Guthrie (2005)
Country	Germany	UK	UK	Hong Kong	Italy	Sri Lanka
External	43	61	61	37	52	44
Human	26	27	22	35	29	36
Internal	31	12	17	28	19	20
Total	**100**	**100**	**100**	**100**	**100**	**100**

Table 2. Broad category wise comparison						
Year	**Internal Capital**		**External Capital**		**Human Capital**	
	Proportionate Frequency	Proportionate Volume (sentences)	Proportionate Frequency	Proportionate Volume (sentences)	Proportionate Frequency	Proportionate Volume (sentences)
2001	1.00	10.60	0.40	4.00	0.28	1.44
2002	1.00	10.60	0.40	3.80	0.39	1.78
2003	1.00	14.60	0.40	3.40	0.39	2.33
2004	1.00	17.00	0.40	3.40	0.44	2.44
2005	1.00	19.60	0.40	3.40	0.44	2.44
2006	1.00	21.40	0.60	6.20	0.44	1.89
2007	1.00	25.20	0.60	6.00	0.50	2.44
2008	1.00	28.00	0.60	6.00	0.56	2.61
2009	1.00	31.00	0.60	7.80	0.61	3.00
2010	1.00	45.40	1.00	12.80	0.89	16.00
2011	1.00	44.60	0.80	15.80	0.78	11.72
2012	1.00	47.00	0.80	17.40	0.83	9.89
2013	1.00	51.40	0.80	17.00	0.83	11.67
2014	1.00	53.60	0.80	18.80	0.89	10.44
2015	1.00	76.00	0.80	23.60	0.89	10.83
Total	15.00	496.00	9.40	149.40	9.17	90.94
Average	1.00	33.0	0.63	9.96	0.61	6.06
Percentage	45	67.4	28	20.2	27	12.4

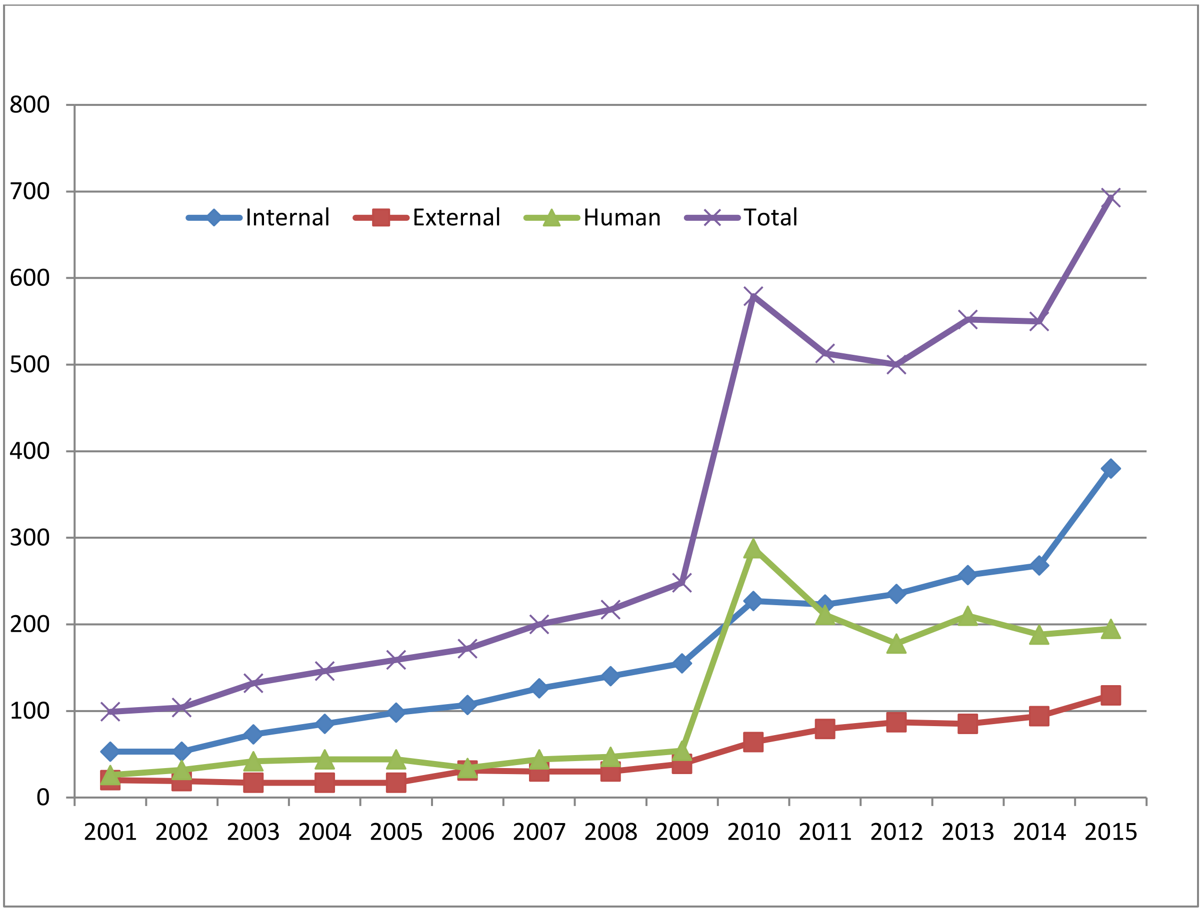

Figure 1. Trend of Intellectual Capital Reporting from 2001 to 2015
(Y axis shows number of sentences)

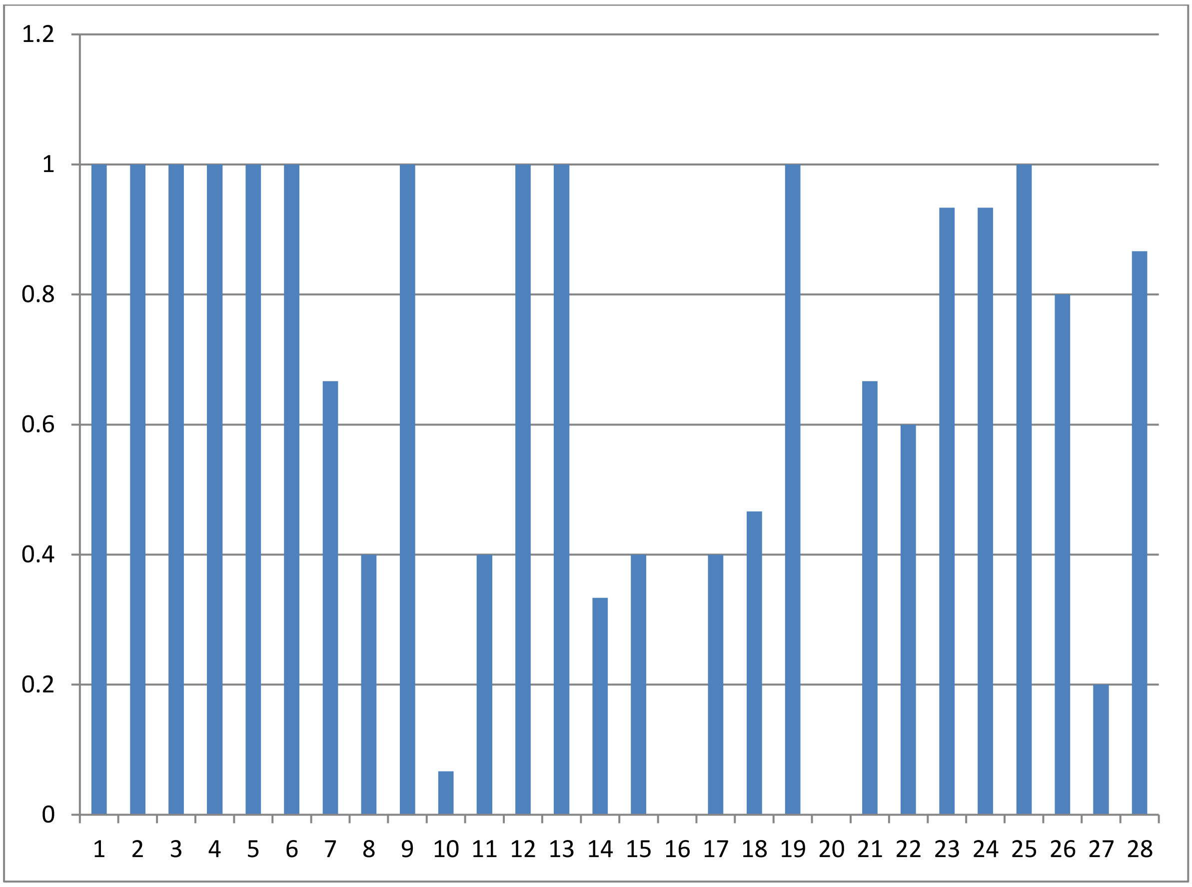

Figure 2. Item-wise Intellectual Capital Reporting by proportionate frequency from 2001-2015 (Y axis shows proportionate frequency)

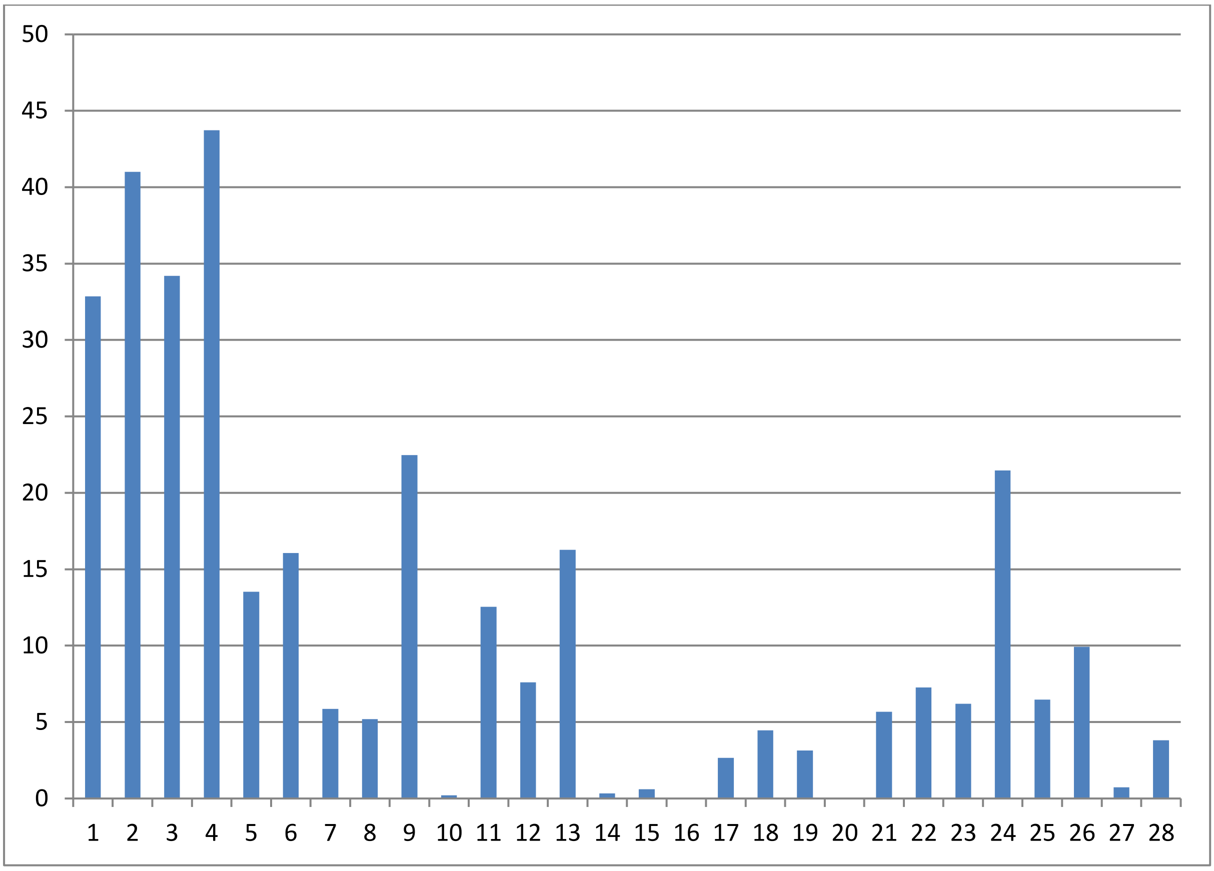

Figure 3. Item-wise Intellectual Capital Reporting by proportionate sentences from 2001 – 2015 (Y axis shows proportionate sentences)